Annual Financial Report
For the Fiscal Years Ended
June 30, 2023 and 2022

Board of Directors as of June 30, 2023

Name	Title	Elected/ Appointed	Current Term
Vicki Morris	President	Elected	12/20 - 12/24
Wayne Holman	Vice-President	Elected	12/20 - 12/24
Seth Capron	Director	Elected	12/22 - 12/26
Wayne Norton	Director	Elected	12/22 - 12/26
Tim Powers	Director	Elected	12/22 - 12/26

Robert Johnson, General Manager
388 Blohm Avenue
P.O. Box 388
Aromas, California 95004
(831) 726-3155

Aromas Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2023 and 2022

Aromas Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2023 and 2022

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Financial Section

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An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
Aromas Water District
Aromas, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Aromas Water District (District), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2023 and 2022, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditor's Report, continued

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control–related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the required supplementary information on pages 33 through 35 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Independent Auditor's Report, continued

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedules of Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Operating Expenses on page 36 are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Operating Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
January 23, 2024

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Aromas Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2023 and 2022. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In fiscal year 2023, the District's operating revenues increased 0.83% or $12,293, from $1,479,729 to $1,492,022. In fiscal year 2022, the District's operating revenues increased 1.75% or $25,505, from $1,454,224 to $1,479,729.
- In fiscal year 2023, the District's operating expenses increased 3.30% or $35,682, from $1,081,516 to $1,117,198. In fiscal year 2022, the District's operating expenses increased 12.49% or $120,058, from $961,458 to $1,081,516.
- In fiscal year 2023, the District's net position decreased 1.10% or $70,529, from $6,400,945 to $6,330,416. In fiscal year 2022, the District's net position decreased 2.03% or $132,512, from $6,533,457 to $6,400,945.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position include all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. They also provide the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments, and net change in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing answers to questions such as: where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Financial Analysis of the District, continued

These statements report the District's *net position* and changes in it. One can think of the District's net position (assets and deferred outflows less liabilities and deferred inflows), as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 14 through 32.

Statements of Net Position

A summary of the statements of net position is as follows:

Condensed Statements of Net Position

	2023	2022	Change	2021	Change
Assets:					
Current assets	$ 10,337,219	10,613,058	(275,839)	4,755,793	5,857,265
Capital assets, net	5,713,868	5,991,374	(277,506)	6,138,410	(147,036)
Total assets	16,051,087	16,604,432	(553,345)	10,894,203	5,710,229
Deferred outflows of resources	315,213	136,914	178,299	149,120	(12,206)
Liabilities:					
Current liabilities	564,107	597,300	(33,193)	309,484	287,816
Non-current liabilities	9,404,928	9,407,877	(2,949)	4,196,045	5,211,832
Total liabilities	9,969,035	10,005,177	(36,142)	4,505,529	5,499,648
Deferred inflows of resources	66,849	335,224	(268,375)	4,337	330,887
Net position:					
Net investment in capital assets	2,073,005	2,263,533	(190,528)	2,422,798	(159,265)
Restricted	2,738,655	2,813,740	(75,085)	2,850,000	(36,260)
Unrestricted	1,518,756	1,323,672	195,084	1,260,659	63,013
Total net position	$ 6,330,416	6,400,945	(70,529)	6,533,457	(132,512)

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $6,330,416 and $6,400,945 as of June 30, 2023 and 2022, respectively.

A portion of the District's net position reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding (32.75% and 35.36% as of June 30, 2023 and 2022, respectively). The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending. (See Note 6 for further discussion)

At the end of fiscal years 2023 and 2022, the District showed a positive balance in its unrestricted net position of $1,518,756 and $1,323,672, respectively.

Statements of Revenues, Expenses, and Changes in Net Position

A summary of the statements of revenues, expenses, and changes in net position is as follows:

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2023	2022	Change	2021	Change
Revenue:					
Operating revenues	$ 1,492,022	1,479,729	12,293	1,454,224	25,505
Non-operating revenues	419,559	214,313	205,246	195,534	18,779
Total revenue	1,911,581	1,694,042	217,539	1,649,758	44,284
Expense:					
Operating expense	1,117,198	1,081,516	35,682	961,458	120,058
Depreciation expense	564,199	482,673	81,526	470,277	12,396
Non-operating expense	300,713	262,365	38,348	154,744	107,621
Total expense	1,982,110	1,826,554	155,556	1,586,479	240,075
Changes in net position	(70,529)	(132,512)	61,983	63,279	(195,791)
Net position, beginning of year	6,400,945	6,533,457	(132,512)	6,470,178	63,279
Net position, end of year	$ 6,330,416	6,400,945	(70,529)	6,533,457	(132,512)

The statements of revenues, expenses, and changes in net position show how the District's net position changed during the fiscal years.

A closer examination of the sources of changes in net position reveals that:

In fiscal year 2023, the District's total revenues increased by 12.84% or $217,539. Operating revenues increased 0.83% or $12,293, due primarily to an increase in connection fees of $50,020; which was offset by a decrease in water revenue of $37,727. The District's non-operating revenues increased 95.77% or $205,246, due primarily to increases in non-cash pension actuarial credit adjustment from CalPERS of $150,606, interest income of $42,647, property taxes of $8,741, and voter approved assessments of $5,416. In fiscal year 2022, the District's total revenues increased 2.68% or $44,284. Operating revenues increased 1.75% or $25,505, due primarily to an increase in water revenue of $3,775, which was offset by a decrease in connection fees of $29,280. The District's non-operating revenues increased 9.60% or $18,779, due primarily to increases in interest income of $3,449 and voter approved assessments of $12,504.

In fiscal year 2023, the District's total expenses (including depreciation) increased 8.52% or $155,556. Operating expenses increased 3.30% or $35,682, due primarily to increases in salaries and wages of $66,786, pumping of $41,866, and administration and general of $22,337; which were offset by a decrease in employee benefits of $95,637;. The District's non-operating expenses increased 14.62% or $38,348, due primarily to an increase in interest expense of $129,900, which was offset by a decrease in bond interest cost of $81,440. In fiscal year 2022, the District's total expenses (including depreciation) increased 15.13% or $240,075. Operating expenses increased 12.49% or $120,058, due primarily to increases in administrative and general of $46,471, and employee benefits of $102,153; which were offset by a decrease in salaries and wages of $39,257. The District's non-operating expenses increased 69.55% or $107,621, due primarily to a increases in bond issuance costs of $81,440, and interest expense of $20,486.

In fiscal year 2023, the District's net position decreased 1.10% or $70,529, from $6,400,945 to $6,330,416, from continuing operations. In fiscal year 2022, the District's net position decreased 2.03% or $132,512, from $6,533,457 to $6,400,945, from continuing operations.

Capital Asset Administration

At the end of fiscal years 2023 and 2022, the District's investment in capital assets (net of accumulated depreciation), amounted to $5,713,868 and $5,897,258, respectively. This investment in capital assets includes land, water transmission and distribution systems, buildings and structures, equipment, and vehicles. (See note 3 for further discussion).

The change in capital assets for 2023, was as follows:

		Balance 2022	Transfers/ Additions	Transfers/ Deletions	Balance 2023
Non-depreciable assets	$	425,312	196,591	-	621,903
Depreciable assets		12,912,577	90,102	-	13,002,679
Accumulated depreciation		(7,346,515)	(564,199)	-	(7,910,714)
Total capital assets, net	$	5,991,374	(277,506)	-	5,713,868

The change in capital assets for 2022, was as follows:

		Balance 2021	Transfers/ Additions	Transfers/ Deletions	Balance 2022
Non-depreciable assets	$	331,196	-	-	331,196
Depreciable assets		12,671,056	241,521	-	12,912,577
Accumulated depreciation		(6,863,842)	(482,673)	-	(7,346,515)
Total capital assets, net	$	6,138,410	(241,152)	-	5,897,258

Major capital asset additions during the year include improvements to the water transmission and distribution system.

Debt Administration

Changes in long-term debt in 2023, were as follows:

		Balance 2022	Additions	Principal Payments	Balance 2023
Bonds payable	$	2,813,740	-	(52,250)	2,761,490
Notes payable		6,540,158	-	(286,698)	6,253,460
Total long-term debt	$	9,353,898	-	(338,948)	9,014,950

Changes in long-term debt in 2022, were as follows:

		Balance 2021	Additions	Principal Payments	Balance 2022
Bonds payable	$	2,850,000	-	(36,260)	2,813,740
Notes payable		865,612	5,759,500	(84,954)	6,540,158
Total long-term debt	$	3,715,612	5,759,500	(121,214)	9,353,898

Conditions Affecting Current Financial Position

Management does not foresee any conditions which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present, and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager at 388 Blohm Avenue, Aromas, California 95004.

Basic Financial Statements

Aromas Water District
Statements of Net Position
June 30, 2023 and 2022

		2023	2022
Current assets:			
Cash and cash equivalents (note 2)	$	1,606,919	1,885,464
Cash and cash equivalents – restricted (note 2)		6,138,304	6,154,842
Accounts receivable, net		209,879	193,898
Assessment receivable – restricted		2,226,408	2,284,955
Interest receivable		51,965	1,568
Prepaid expenses		20,333	14,333
Inventory and supplies		83,411	77,998
Total current assets		10,337,219	10,613,058
Non-current assets:			
Capital assets – not being depreciated (note 3)		621,903	425,312
Capital assets – being depreciated (note 3)		5,091,965	5,566,062
Total non-current assets		5,713,868	5,991,374
Total assets		16,051,087	16,604,432
Deferred outflows of resources:			
Deferred outflows – pensions (note 7)		315,213	136,914
Total deferred outflows of resources	$	315,213	136,914

Continued on next page

See accompanying notes to the basic financial statements

Aromas Water District
Statements of Net Position, continued
June 30, 2023 and 2022

		2023	2022
Current liabilities:			
Accounts payable	$	40,189	106,898
Accrued interest		114,120	68,517
Accrued payroll and payroll liabilities		11,052	15,196
Customer deposits and unearned revenue		58,192	27,300
Long-term liabilities – due within one year:			
Compensated absences (note 4)		37,838	37,016
Bonds payable (note 5)		55,000	53,740
Notes payable (note 5)		247,716	288,633
Total current liabilities		564,107	597,300
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 4)		12,612	12,338
Net pension liability (note 7)		680,082	384,014
Bonds payable (note 5)		2,706,490	2,760,000
Notes payable (note 5)		6,005,744	6,251,525
Total non-current liabilities		9,404,928	9,407,877
Total liabilities		9,969,035	10,005,177
Deferred inflows of resources:			
Deferred inflows – pensions (note 7)		66,849	335,224
Total deferred inflows of resources		66,849	335,224
Net position (note 6):			
Net investment in capital assets		2,073,005	2,263,533
Restricted		2,738,655	2,813,740
Unrestricted		1,518,756	1,323,672
Total net position	$	6,330,416	6,400,945

See accompanying notes to the basic financial statements

Aromas Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2023 and 2022

		2023	2022
Operating revenues:			
Water revenue	$	1,398,082	1,435,809
Connection fees		93,940	43,920
Total operating revenues		1,492,022	1,479,729
Operating expenses:			
Pumping		270,566	228,700
Water treatment		33,137	32,807
Administration and general		124,307	101,970
Salaries and wages		493,026	426,240
Employee benefits (note 7)		196,162	291,799
Total operating expenses		1,117,198	1,081,516
Operating income before depreciation		374,824	398,213
Depreciation expense		(564,199)	(482,673)
Operating loss		(189,375)	(84,460)
Non-operating revenues (expenses):			
Property taxes		91,620	82,879
Voter approved assessment		120,349	125,765
Interest income		48,316	5,669
Bond issuance cost		-	(81,440)
Interest expense		(300,713)	(170,813)
Non-operating revenue (expense), net (note 7)		159,274	(10,112)
Total non-operating revenues (expense), net		118,846	(48,052)
Changes in net position		(70,529)	(132,512)
Net position, beginning of year		6,400,945	6,533,457
Net position, end of year	$	6,330,416	6,400,945

See accompanying notes to the basic financial statements

Aromas Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2023 and 2022

		2023	2022
Cash flows from operating activities:			
Cash receipts from customers for sales and service	$	1,615,810	1,489,913
Cash paid to vendors and suppliers		(852,900)	(507,317)
Cash paid to employees		(496,074)	(423,409)
Net cash provided by operating activities		266,836	559,187
Cash flows from non-capital financing activities:			
Proceeds from property taxes and assessments		270,516	253,729
Net cash provided by non-capital financing activities		270,516	253,729
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(286,693)	(335,637)
Principal paid on long-term debt		(338,948)	5,638,286
Interest paid on long-term debt		(255,110)	(146,603)
Net cash (used in) provided by capital and related financing activities		(880,751)	5,074,606
Cash flows from investing activities:			
Interest earnings		48,316	5,669
Net cash provided by investing activities		48,316	5,669
Net (decrease) increase in cash and cash equivalents		(295,083)	5,893,191
Cash and cash equivalents, beginning of year		8,040,306	2,147,115
Cash and cash equivalents, end of year	$	7,745,223	8,040,306

Reconciliation of cash and cash equivalents to statements of net position:			
Cash and cash equivalents	$	1,606,919	1,885,464
Cash and cash equivalents - restricted		6,138,304	6,154,842
Total cash and cash equivalents	$	7,745,223	8,040,306

Continued on next page

See accompanying notes to the basic financial statements

Aromas Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2023 and 2022

	2023	2022
Reconciliation of operating income (loss) to net cash provided by operating activites:		
Operating loss	$ (189,375)	(84,460)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	564,199	482,673
Other non-operating revenue (expenses), net	159,274	(10,112)
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase) decrease in assets and deferred outflows:		
Accounts receivable, net	(15,981)	4,382
Other receivables	(50,397)	(886)
Prepaid expenses	(6,000)	2,166
Inventory and supplies	(5,413)	(14,821)
Deferred outflows – pensions	(178,299)	12,206
Increase (decrease) in liabilities and deferred inflows:		
Accounts payable	(66,709)	41,567
Accrued payroll and payroll liabilities	(4,144)	(9,216)
Customer deposits and unearned revenue	30,892	16,800
Compensated absences	1,096	12,047
Net pension liability	296,068	(224,046)
Deferred inflows – pensions	(268,375)	330,887
Total adjustments	456,211	643,647
Net cash provided by operating activities	$ 266,836	559,187

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Aromas Water District (District) was formed on July 24, 1959, pursuant to the provisions of the California Water Code, Division 12, and Section 30321 thereof. The District takes water from three water wells located in Aromas to serve 965 connections within its jurisdiction. The District is dedicated to providing a reliable supply of high quality water. The District is governed by a five-member Board of Directors who serves overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants, and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

The District has adopted the following GASB pronouncements in the current year:

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

5. Property Taxes and Assessments

The County of Monterey and the County of San Benito Assessor's Offices assess all real and personal property within the Counties each year. The County of Monterey and the County of San Benito Tax Collector's Offices bill and collect the District's share of property taxes and assessments. In 1993, the Counties adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing section 4701) of the Revenue and Taxation Code of the State (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year-end.

Under this plan, the Counties assume an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and by such financing, Aromas Water District receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of Monterey and the County of San Benito, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

6. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, and pipes and pipefittings for repair and maintenance to the District's water transmission and distribution system. Inventory is valued at cost using the first-in, first-out cost method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

7. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $3,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Water systems – 20 to 40 years
- Office buildings and improvements – 35 years
- Office furniture and fixtures – 3 to 5 years
- Vehicles – 5 years

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

10. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation. Upon termination of employment, employees are paid all unused vacation.

11. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

12. Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- *Net investment in capital assets* – consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt, are included in this component of net position.

- *Restricted* – consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.

- *Unrestricted* – the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the *net investment in capital assets* or *restricted* components of net position.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, are classified in the accompanying financial statements as follows:

		2023	2022
Cash and cash equivalents	$	1,858,889	1,885,464
Cash and cash equivalents - restricted		5,886,334	6,154,842
Total	$	7,745,223	8,040,306

(2) Cash and Cash Equivalents, continued

Cash and cash equivalents as of June 30, consist of the following:

		2023	2022
Cash on hand	$	100	100
Deposits with financial institutions		1,227,026	7,200,958
Local Agency Investment Fund		6,518,097	839,248
Total	$	7,745,223	8,040,306

As of June 30, the District's authorized deposit had the following maturities:

	2023	2022
Deposits in California Local Agency Investment Fund (LAIF)	260 days	311 days

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transaction processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of $5,000, in increments of $1,000.
- Withdrawals of $10 million or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to set up wire transfer transaction.

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

(2) Cash and Cash Equivalents, continued

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of failure of a depository financial institution, a government entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for *investments* is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, a government entity will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies.

As of June 30, 2023 and 2022, $250,000 of the District's bank balance is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District can manage its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

As of June 30, 2023 and 2022, the District maintained no investments subject to market interest rate risk fluctuations.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in LAIF is not rated.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30, 2023 and 2022.

(3) Capital Assets

Changes in capital assets for 2023, was as follows:

	Balance 2022	Additions/ Transfers	Deletions/ Transfers	Balance 2023
Non-depreciable assets:				
Land	$ 331,196	-	-	331,196
Construction in progress	94,116	196,591	-	290,707
Total non-depreciable assets	425,312	196,591	-	621,903
Depreciable assets:				
Water systems	12,281,771	69,572	-	12,351,343
Office building	419,762	20,530	-	440,292
Office furniture and fixtures	93,467	-	-	93,467
Vehicles	117,577	-	-	117,577
Total depreciable assets	12,912,577	90,102	-	13,002,679
Accumulated depreciation	(7,346,515)	(564,199)	-	(7,910,714)
Total depreciable assets, net	5,566,062	(474,097)	-	5,091,965
Total capital assets, net	$ 5,991,374			5,713,868

Major capital assets additions during the year include improvements to the District's water systems and office building.

Changes in capital assets for 2022, was as follows:

	Balance 2021	Additions/ Transfers	Deletions/ Transfers	Balance 2022
Non-depreciable assets:				
Land	$ 331,196	-	-	331,196
Construction in progress	-	94,116	-	94,116
Total non-depreciable assets	331,196	94,116	-	425,312
Depreciable assets:				
Water systems	12,061,750	220,021	-	12,281,771
Office building	398,262	21,500	-	419,762
Office furniture and fixtures	93,467	-	-	93,467
Vehicles	117,577	-	-	117,577
Total depreciable assets	12,671,056	241,521	-	12,912,577
Accumulated depreciation	(6,863,842)	(482,673)	-	(7,346,515)
Total depreciable assets, net	5,807,214	(241,152)	-	5,566,062
Total capital assets, net	$ 6,138,410			5,991,374

In fiscal year 2022, major capital assets additions during the year include improvements to the District's water systems and office building.

(4) Compensated Absences

Changes in compensated absences balance in 2023, were as follows:

	Balance 2021	Additions	Deletions	Balance 2022	Current	Non-Current
$	49,354	60,799	(59,703)	50,450	37,838	12,612

Changes in compensated absences balance in 2022, were as follows:

	Balance 2020	Additions	Deletions	Balance 2021	Current	Non-Current
$	37,307	33,758	(21,711)	49,354	37,016	12,338

(5) Long-Term Debt

Changes in long-term debt in 2023, were as follows:

		Balance 2022	Additions	Payments	Balance 2023
Bonds payable:					
Limited Obligation Improvement Bonds					
Orchard Acres Assessment District 2008 Series A	$	380,000	-	(15,000)	365,000
Assessment District No. 2013-1 Series 2014		2,433,740	-	(37,250)	2,396,490
Total bonds payable		2,813,740	-	(52,250)	2,761,490
Notes payable:					
Union Bank – Tax-exempt refunding loan		780,658	-	(85,587)	695,071
Truist Bank		5,759,500	-	(201,111)	5,558,389
Total notes payable		6,540,158	-	(286,698)	6,253,460
Total long-term debt		9,353,898	-	(338,948)	9,014,950
Current portion		(342,373)			(302,716)
Non-current portion	$	9,011,525			8,712,234

(5) Long-Term Debt, continued

Changes in long-term debt in 2022, were as follows:

	Balance 2021	Additions	Payments	Balance 2022
Bond payable				
Limited Obligation Improvement Bonds				
Orchard Acres Assessment District 2008 Series A	$ 380,000	-	-	380,000
Assessment District No. 2013-1 Series 2014	2,470,000	-	(36,260)	2,433,740
Total bonds payable	2,850,000	-	(36,260)	2,813,740
Note payable				
Union Bank – Tax-exempt refunding loan	865,612	-	(84,954)	780,658
Truist Bank	-	5,759,500	-	5,759,500
Total note payable	865,612	5,759,500	(84,954)	6,540,158
Total long-term debt	3,715,612	5,759,500	(121,214)	9,353,898
Current portion	(136,954)			(342,373)
Non-current portion	$ 3,578,658			9,011,525

Orchard Acres Assessment District, 2008 Limited Obligation Improvement Bond, Series A

In 2008, pursuant to the Assessment Bond Law and Resolution No. 2008-04, the District issued a limited obligation bond under a fiscal agent agreement between the District and Union Bank in the amount of $498,000. The proceeds from the bond financed the connection of 11 parcels of land in an unincorporated area of the County of San Benito, known as Orchard Acres, to the District's municipal water supply system. The bond is a limited obligation to the District, and payable solely from the proceeds of unpaid assessments levied on the 11 parcels within Orchard Acres. Terms of the bond call for semi-annual interest payable on March 2nd and September 2nd of each year, and annual debt service payment of principal on September 2nd of each year. The interest on the bond escalates starting at a rate of 4.80% in 2013 to 6.10% at maturity in 2038.

Annual maturity and interest on the bond are as follows:

Fiscal Year	Principal	Interest	Total
2024	$ 15,000	21,623	36,623
2025	15,000	20,738	35,738
2026	15,000	19,853	34,853
2027	15,000	18,968	33,968
2028	20,000	17,935	37,935
2029-2033	105,000	71,503	176,503
2034-2038	145,000	34,313	179,313
2039	35,000	1,068	36,068
Total	365,000	206,001	571,001
Current	(15,000)		
Non-current	$ 350,000		

(5) Long-Term Debt, continued

Assessment District No. 2013-1, Limited Obligation Improvement Bond, Series 2014

In 2014, pursuant to the Assessment Bond Law and Resolution No. 2014-09, the District issued a limited obligation bond in the amount of $2,723,613. The proceeds from the bond financed 47 water and fire service connections and 12 fire service only connections to particular residences on Oakridge Drive and Via del Sol. The bond is a limited obligation to the District, and payable solely from the proceeds of unpaid assessments levied on the Assessment District. Terms of the bond call for semi-annual interest payable on March 2nd and September 2nd of each year, and annual debt service payment of principal on September 2nd of each year. The interest on the bond is stated at 4.00% and matures in 2055.

Annual maturity and interest on the bond are as follows:

Fiscal Year	Principal	Interest	Total
2024	$ 40,000	98,600	138,600
2025	41,000	96,980	137,980
2026	43,000	95,300	138,300
2027	45,000	93,540	138,540
2028	46,000	91,720	137,720
2029-2033	260,000	428,800	688,800
2034-2038	318,000	371,200	689,200
2039-2043	385,000	301,100	686,100
2044-2048	471,000	215,820	686,820
2049-2053	573,000	111,700	684,700
2054-2055	174,490	10,620	185,110
Total	2,396,490	1,915,380	4,311,870
Current	(40,000)		
Non-current	$ 2,356,490		

City National Note Payable

In 2006, the District entered into a loan agreement with Santa Barbara Bank & Trust, N.A. and borrowed $854,318. The proceeds of the loan financed the improvement to the District's water treatment and distribution system.

In 2011, the District refinanced its loan obtained in 2006, and borrowed additional funds to total $1,457,578. The proceeds of the loan financed the improvement to the District's water treatment and distribution system extended to consist of the replacement of, and improvement to, the site of the Carpenteria well and improvements to the booster station.

In 2015, the District refinanced its loan obtained in 2011, with the Municipal Finance Corporation to refinance $1,323,721 on a tax-exempt basis and borrowed $201,966 on a taxable basis. The proceeds of the additional funds were used to acquire and install a solar energy project at the Carpenteria well site. The interest rates on the tax-exempt note and the taxable note are stated at 3.00% and 2.75%, respectively, and mature in 2030 and 2021, respectively. The terms of the notes call for semi-annual debt service payment of principal and interest payable on May 1st and November 1st of each year. The notes are secured by a pledge of and lien on the net revenues of the District's water system.

(5) Long-Term Debt, continued

City National Note Payable, continued

Annual maturity and interest on the tax-exempt note are as follows:

Fiscal Year	Principal	Interest	Total
2024	$ 90,167	20,070	110,237
2025	92,893	17,345	110,238
2026	95,700	14,537	110,237
2027	98,593	11,644	110,237
2028	101,573	8,665	110,238
2029-2030	216,145	8,026	224,171
Total	695,071	80,287	775,358
Current	(90,167)		
Non-current	$ 604,904		

In 2021, the District paid the taxable note in full.

Truist Bank Note Payable

On May 2022, the District entered into a loan agreement with Truist Bank and borrowed $5,759,500 which is secured by a pledge of and lien on the net revenues of the District's water revenues. The proceeds from the loan will finance the acquisition and installation of certain improvements to the District's water system, including a new well and a solar energy project. Terms of the loan call for semi-annual payments of principal and interest payable on February 1st and August 1st of each year. The interest on the loan is stated at 3.08% and matures in 2042.

Annual maturity and interest on the loan are as follows:

Fiscal Year	Principal	Interest	Total
2024	$ 157,549	167,235	324,784
2025	162,359	162,425	324,784
2026	167,316	157,468	324,784
2027	172,423	152,360	324,783
2028	177,688	147,096	324,784
2029-2033	1,316,689	637,939	1,954,628
2034-2038	1,777,162	397,942	2,175,104
2039-2042	1,627,203	112,880	1,740,083
Total	5,558,389	1,935,345	7,493,734
Current	(157,549)		
Non-current	$ 5,400,840		

(6) Net Position

Calculation of net position as of June 30, was as follows:

		2023	2022
Net investments in capital assets:			
Capital assets, net	$	5,713,868	5,991,374
Unspent proceeds from loan		5,374,087	5,626,057
Notes payable, current		(247,716)	(288,633)
Notes payable, non-current		(6,005,744)	(6,251,525)
Bonds payable, current		(55,000)	(53,740)
Bonds payable, non-current		(2,706,490)	(2,760,000)
Total net investments in capital assets		2,073,005	2,263,533
Restricted for debt service:			
Cash and cash equivalents – restricted		5,886,334	6,154,842
Unspent proceeds from loan		(5,374,087)	(5,626,057)
Assessment receivable – restricted		2,226,408	2,284,955
Total restricted for debt service		2,738,655	2,813,740
Unrestricted net position:			
Non-spendable net position:			
Inventory and supplies		83,411	77,998
Prepaid expenses		20,333	14,333
Total non-spendable net position		103,744	92,331
Spendable net position:			
Unrestricted		1,415,012	1,231,341
Total spendable net position		1,415,012	1,231,341
Total unrestricted net position		1,518,756	1,323,672
Total net position	$	6,330,416	6,400,945

(7) Defined Benefit Pension Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

(7) Defined Benefit Pension Plans, continued

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. Cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 55 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The District participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous pool in effect as of June 30, are summarized as follows:

	2023		2022	
	New Classic	PEPRA	New Classic	PEPRA
Hire date	Prior to December 31, 2012	On or after January 1, 2013	Prior to December 31, 2012	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service		5 years of service	
Benefit payments	monthly for life		monthly for life	
Retirement age	50 - 55	52 - 62	50 - 55	52 - 62
Monthly benefits, as a % of eligible compensation	2.00%	2.00%	2.00%	2.00%
Required employee contribution rates	7.00%	6.75%	7.00%	6.75%
Required employer contribution rates	10.87%	7.47%	10.88%	7.59%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by an actuary and shall be effective on July 1, following notice of a change in rate. Funding contribution for the Plan is determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, the District's contributions to CalPERS are as follows:

	2023	2022
Contribution - employer	$ 104,190	88,219

(7) Defined Benefit Pension Plans, continued

Net Pension Liability

As of the fiscal years ended June 30, the District reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

		2023	2022
Proportionate share of net pension liability	$	680,082	384,014

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of June 30, 2023 and 2022, the net pension liability of the Plan is measured as of June 30, 2022 and 2021 (the measurement dates, respectively). The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 and 2020 (the valuation dates), rolled forward to June 30, 2022 and 2021, respectively, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's changes in proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2022 and 2021, were as follows:

	Proportionate Share	
Proportion – June 30, 2020	0.00563	%
Change in proportionate share	(0.00210)	
Proportion – June 30, 2021	0.00353	
Change in proportionate share	0.00905	
Proportion – June 30, 2022	0.01257	%

Deferred Pension Outflows (Inflows) of Resources

The District will recognized other amounts of deferred outflows of resources and deferred inflows of resources as follows:

Fiscal Year Ending June 30:		Deferred Outflows/ (Inflows) of Resources
2024	$	33,101
2025		23,938
2026		10,941
2027		76,194
2028		-
Thereafter		-

As of June 30, 2023 and 2022, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of $104,190, and $88,219, respectively, will be recognized as a reduction of the net pension liability in the fiscal years ended June 30, 2024 and 2023, respectively.

(7) Defined Benefit Pension Plans, continued

Deferred Pension Outflows (Inflows) of Resources, continued

For the years ended June 30, 2023 and 2022, the District recognized pension (credit) expense of $(150,606) and $119,047, respectively. In 2023, the District records pension credit adjustment within the non-operating revenues (expenses), net. In 2022, pension expense was recorded as part of employee benefits.

As of the fiscal years ended June 30, 2023 and 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	2023		2022	
Description	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 104,190	-	88,219	-
Differences between actual and expected experience	4,510	-	43,063	-
Changes in assumptions	69,689	-	-	-
Net difference between projected and actual earnings on plan investments	124,573	-	-	(335,224)
Differences between actual contribution and proportionate share of contribution	12,251	-	-	-
Net adjustment due to differences in proportions of net pension liability	-	(66,849)	5,632	-
Total	$ 315,213	(66,849)	136,914	(335,224)

Actuarial Assumptions

The total pension liabilities in the June 30, 2021 and 2020, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation dates	June 30, 2021 and 2020
Measurement dates	June 30, 2022 and 2021
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Discount rate	6.90%
Inflation	2.50%
Salary increases	Varies by entry age and service
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Period upon which actuarial experience survey assumptions were based	1997 – 2015
Post retirement benefit increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on purchasing power applies

(7) Defined Benefit Pension Plans, continued

Actuarial Assumptions, continued

* The mortality table was developed based on CalPERS specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP 2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study that can be found on the CalPERS website.

Discount Rate

The discount rates used to measure the total pension liability for PERF C in 2023 and 2022, were 6.90%, and 7.15%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. This discount rate is not adjusted for administrative expenses.

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return.

The table below reflects the expected real rates of return by asset class.

Asset Class	New Strategic Allocation	Real Return 1-10[1,2]
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity Non-Cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%

[1] An expected inflation of 2.30% used for this period.

[2] Figures are based on the 2021-22 Asset Liability Management Study.

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net position liability for the Plan calculated using the discount rate, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate.

(7) Defined Benefit Pension Plans, continued

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate, continued

As of June 30, 2023, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 5.90%	Current Discount Rate 6.90%	Discount Rate + 1% 7.90%
District's net pension liability	$ 1,000,261	680,082	416,654

As of June 30, 2022, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's net pension liability	$ 671,332	384,014	146,493

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 33 through 35 for the Required Supplementary Information.

(8) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2023:

- Public employee dishonesty, forgery or alteration, computer fraud, faithful performance of duty, pension plans including ERISA: $200,000 limit of coverage with a $100,000 deductible.
- Building, personal property, fixed equipment, additional coverage, and catastrophic coverage: $1,000 deductible.
- Mobile equipment: $1,000 deductible.
- Automobile: $1,000 deductible.
- Boiler and machinery: Various.
- Flood: Various.
- Earthquake: 5% per unit of insurance, subject to $75,000 minimum.

(9) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the issue date, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 99

In April 2022, the GASB issued Statement No. 99 – *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of state and local government financial statements.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 100

In June 2022, the GASB issued Statement No. 100 – *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

(9) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 101

In June 2022, the GASB issued Statement No. 101 – *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

(10) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by grantor agencies. Such audit could lead to requests for reimbursements to grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(11) Subsequent Events

Events occurring after June 30, 2023, have been evaluated for possible adjustment to the financial statements or disclosure as of January 23, 2024, which is the date the financial statements were available to be issued.

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Required Supplementary Information

Aromas Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2023
Last Ten Years*

Defined Benefit Plan

Description		Measurement Dates								
		06/30/22	06/30/21	06/30/20	06/30/19	06/30/18	06/30/17	06/30/16	06/30/15	06/30/14
District's proportion of the net pension liability		0.00589%	0.00710%	0.00559%	0.00563%	0.00565%	0.00567%	0.00579%	0.00635%	0.00719%
District's proportionate share of the net pension liability	$	680,082	384,014	608,060	577,103	544,625	562,232	501,054	436,183	436,144
District's covered payroll	$	381,882	375,084	365,231	329,968	353,350	284,641	260,629	283,860	328,068
District's proportionate share of the net pension liability as a percentage of its covered payroll		178.09%	102.38%	166.49%	174.90%	154.13%	197.52%	192.25%	153.66%	132.94%
Plan's proportionate share of fiduciary net position as a percentage of total pension liability		76.68%	88.29%	75.10%	75.26%	75.26%	73.31%	74.06%	78.40%	80.43%

Notes to the Schedules of the District's Proportionate Share of Net Pension Liability

Changes in Benefit Terms

Public agencies can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for a specific plan can be found in the plan's annual valuation report.

Change of Assumptions and Methods

In fiscal year 2022, the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

In fiscal year 2021, there were no changes to actuarial assumptions or methods.

The CalPERS Board of Administration adopted a new amortization policy effective with the June 30, 2019, actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed as a level dollar amount. In addition, the new policy does not utilize a five-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy also does not utilize a five-year ramp-down on investment gains/losses.

Notes to the Schedules of the District's Proportionate Share of Net Pension Liability, continued

Change of Assumptions and Methods, continued

These changes will apply only to new UAL bases established on or after June 30, 2019. In fiscal year 2020, no changes have occurred to the actuarial assumptions in relation to financial reporting.

In fiscal year 2020, CalPERS implemented a new actuarial valuation software system for the June 30, 2018 valuation. This new system has refined and improved calculation methodology.

In December 2017, the CalPERS Board adopted new mortality assumptions for plans participating in the PERF. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90% of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75% to 2.50%.

The assumptions for individual salary increases and overall payroll growth are reduced from 3.00% to 2.75%. These changes will be implemented in two steps commencing in the June 30, 2017 funding valuation. However, for financial reporting purposes, these assumption changes are fully reflected in the results for fiscal year 2018.

In fiscal year 2017, the financial reporting discount rate for the PERF C was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF C from 7.50% to 7.00%, which is to be phased in over a three-year period (7.50% to7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In fiscal year 2015, the financial reporting discount rate was increased from 7.50% to 7.65% resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50% during this period, and remained adjusted for administrative expenses.

* The District has presented information for those years for which information is available until a full 10- year trend is compiled.

Aromas Water District
Schedules of the Pension Plan Contributions
As of June 30, 2023
Last Ten Years*

	Fiscal Years Ended								
Description	**06/30/23**	**06/30/22**	**06/30/21**	**06/30/20**	**06/30/19**	**06/30/18**	**06/30/17**	**06/30/16**	**06/30/15**
Actuarially determined contribution	$ 104,190	88,219	87,813	79,845	70,661	65,018	61,410	51,643	43,204
Contributions in relation to the actuarially determined contribution	(104,190)	(88,219)	(87,813)	(79,845)	(70,661)	(65,018)	(61,410)	(51,643)	(43,204)
Contribution deficiency (excess)	$ -	-	-	-	-	-	-	-	
District's covered payroll	$ 355,984	381,882	375,084	365,231	329,968	353,350	284,641	260,629	283,860
Contributions as a percentage of covered payroll	29.27%	23.10%	23.41%	21.86%	21.41%	18.40%	21.57%	19.81%	15.22%

Notes to the Schedules of Pension Plan Contributions

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

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Supplementary Information

Aromas Water District
Schedules of Operating Expenses
For the Fiscal Years Ended June 30, 2023 and 2022

		2023	2022
Operating expenses:			
Salaries	$	456,762	396,341
Payroll taxes		36,264	29,597
Payroll expenses		1,771	481
Retirement benefits - CalPERS		105,685	207,255
Uniform allowance		2,249	1,752
Education		3,023	5,849
Workers compensation and health insurance		85,206	76,944
Outside services		10,334	5,633
Power		86,947	89,975
Truck expense		42,550	24,931
System repair and maintenance		107,326	87,696
Water analysis and treatment		33,137	32,807
Small tools and equipment		5,296	4,574
Annexation/EIR/Planning		18,975	12,285
Office (postage/supplies/maintenance)		17,837	15,934
Telemetry		9,472	9,239
Telephone		10,530	9,867
Election expense		400	-
General and property insurance		25,008	20,367
Legal		17,654	16,800
Bank charges		1,629	1,667
Audit		13,180	9,095
Bad debts		534	-
Membership		25,429	22,124
COVID sick support		-	303
Total operating expenses	$	1,117,198	1,081,516

Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on the Audits of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Aromas Water District
Aromas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Aromas Water District (District), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 23, 2024.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent Auditor's Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on the Audits of Financial Statements Performed in Accordance with *Government Auditing Standards,* continued

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C.J. Brown & Company, CPAs

C.J. Brown & Company, CPAs
Cypress, California
January 23, 2024